



# Monthly Economic Update

## February 2002



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This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.co.mo.md.us/services/finance> For questions, please call (240) 777-8866

- **Economic Conditions.** To the surprise of most observers, 4<sup>th</sup> qtr 2001 GDP was revised upward to 1.4%. For the year as a whole, 2001 grew 1.2% and while that is the slowest growth rate in the past ten years, it is considerably better than the projected "doom and gloom" scenario, especially after 9/11.

There are numerous signs that the economy is rebounding. Both manufacturing and services sectors grew sharply in February 2002, with the hard-hit manufacturing sector ending an 18-month contraction as new orders, resulting from dwindling inventories, increased production. Employment expanded at the biggest clip in one year, new construction and real estate markets remain strong, while the leading economic indicators for the nation and Washington region suggest an economic recovery.

- **Inflation.** One remarkable aspect of this economy is that, with the exception of 2000 when higher energy prices pushed up inflation, overall prices have barely grown. In fact, inflation growth is currently decelerating. Inflation rose 3.4% nationwide in 2000, it grew 2.9% in 2001, and just 1.1% in January 2002. The same decelerating growth trend is observed in the Washington-Baltimore region (3.3%, 2.6%, 1.8%).

One reason for this trend is that growth in wages and benefits stabilized in the past few years. Measured by the employment cost index, costs jumped above 4% in the 1<sup>st</sup> qtr 2000, but dropped below that in subsequent periods. While low inflation is good for the consumer, it has taken away pricing power for businesses and contributed to the weak profit conditions and outlook. On the other hand, low inflation allowed the Fed to cut interest rates and stimulate the economy by lowering the cost of personal and business capital investment.

- **Real Estate.** One area that benefited from the low interest rate environment is the housing market. In contrast to previous economic downturns when the

housing market led the economy into a recession, this time around, it contributed to preventing one. Last year, the County outperformed the nation in volume and price growth. A sharp jump in home sales in the latter part of 2001 pushed the number of homes sold 4.8% above the prior year, and considerably better than the nation (2.8%).

Moreover, the 8.1% growth in the County's average sale price was also stronger than the nation (6.3%). The strong sales trend continued into the current year, with January sales data showing strong gains in the County and nation. However, in contrast to the 14.6% jump in existing homes sold nationwide, new homes fell 12.6% in that same period, bringing the combined growth below the County's.

- **Retail Trade.** Even though the consumer has been the driving force behind both the exceptional economic growth in the past few years and this recovery, spending has slowed. And while consumer confidence has improved dramatically over the past few months, job losses have had a negative impact on consumer spending. As a result, retail trade in 2001 grew half the pace of the prior year, while January 2002 sales were down in both Maryland (-2.1%) and the County (-3.2%). However, even though there was weakness in some categories in the County, auto and building supply sales were exceptionally strong – the former in response to numerous manufacturer incentives and the latter due to the continued strong commercial and residential construction market.

- **Labor Market.** Growth in new County jobs slowed to a trickle (0.8%) in 2001, while unemployment picked up slightly (2.3%). On the other hand, County unemployment in 2001 remained well below the previous recession high (4.0%) and the nation (4.8%). And while unemployment has increased to 3.0% in January it was half of the non-seasonally adjusted figure for the nation (6.1%), well below Maryland (5.1%), and the lowest in the State.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		2000
				2001	2000	
Leading Indicators						
National	Jan. 2002	0.6%		2.6%		-1.5%
Washington MSA	December	1.2%		-0.9%		0.5%
Consumer Confidence Index						
National	Feb. 2002	-3.8%		-26.4%		-9.2%
South Atlantic Region	Feb. 2002	-1.4%		-23.9%		-9.9%
Consumer Price Index						
All Items						
National	Jan. 2002	1.1%		2.9%		3.4%
Washington - Baltimore CMSA	Jan. 2002	1.8%		2.6%		3.3%
Core CPI						
National	Jan. 2002	2.6%		2.7%		2.4%
Washington - Baltimore CMSA	Jan. 2002	3.0%		3.1%		2.3%
Retail Trade						
National (sales)	Jan. 2002	3.2%		3.4%		7.6%
Maryland (tax)	Jan. 2002	-2.1%		3.0%		8.2%
Montgomery County (tax)	Jan. 2002	-3.2%		3.8%		6.6%
Employment						
National	Feb. 2002	133,349,000	134,774,000	135,073,000	135,208,000	135,208,000
- Percent Change		-1.1%		-0.1%		1.3%
Washington PMSA (at place)	December	2,854,500	2,826,900	2,831,800	2,754,600	2,754,600
- Percent Change		1.0%		2.8%		3.0%
Montgomery County (resident)	Jan. 2002	477,182	472,052	477,701	473,902	473,902
- Percent Change		1.1%		0.8%		1.3%
Montgomery County (payroll)	June	456,983	453,448	449,003	442,268	447,744
- Percent Change		0.8%		1.5%		4.9%
Unemployment						
National	Feb. 2002	6.1%	4.6%	4.8%		4.0%
Maryland	Jan. 2002	5.1%	4.2%	4.1%		3.9%
Washington PMSA	December	3.2%	2.1%	2.7%		2.3%
Montgomery County	Jan. 2002	3.0%	1.8%	2.3%		1.9%
Construction						
Project Cost - Montgomery County						
Total (\$ thousand)	Jan. 2002	\$142,231	\$113,956	\$1,353,664	\$1,172,696	\$1,172,696
- Percent Change		24.8%		15.4%		-19.3%
Residential (\$ thousand)	Jan. 2002	\$72,866	\$46,379	\$682,768	\$582,335	\$582,335
- Percent Change		57.1%		17.2%		37.0%
Non-Residential (\$ thousand)	Jan. 2002	\$69,365	\$67,577	\$670,896	\$590,361	\$590,361
- Percent Change		2.6%		13.6%		-42.5%
Building Permits (Residential)						
National	Jan. 2002	115,139	114,849	1,610,766	1,574,361	1,574,361
- Percent Change		0.3%		2.3%		-5.4%
Maryland	Jan. 2002	2,271	1,845	28,412	29,417	29,417
- Percent Change		23.1%		-3.4%		-1.1%
Montgomery County	Jan. 2002	278	239	5,091	4,472	4,472
- Percent Change		16.3%		13.8%		6.7%
Building Permits (Non-Residential)						
Montgomery County	Jan. 2002	159	144	2,102	1,697	1,697
- Percent Change		10.4%		23.9%		28.7%
Real Estate						
National						
Sales	Jan. 2002	6,040,000	5,270,000	5,296,000	5,152,000	5,152,000
- Percent Change		14.6%		2.8%		-1.0%
Median Price	Jan. 2002	\$151,100	\$137,100	\$147,800	\$139,000	\$139,000
- Percent Change		10.2%		6.3%		4.3%
Montgomery County						
Sales	Jan. 2002	909	833	15,489	14,779	14,779
- Percent Change		9.1%		4.8%		0.4%
Average Price	Jan. 2002	\$292,322	\$256,877	\$274,522	\$253,876	\$253,876
- Percent Change		13.8%		8.1%		4.9%
Median Price	Jan. 2002	\$223,000	\$185,000	\$215,000	\$190,000	\$190,000
- Percent Change		20.5%		13.2%		2.7%